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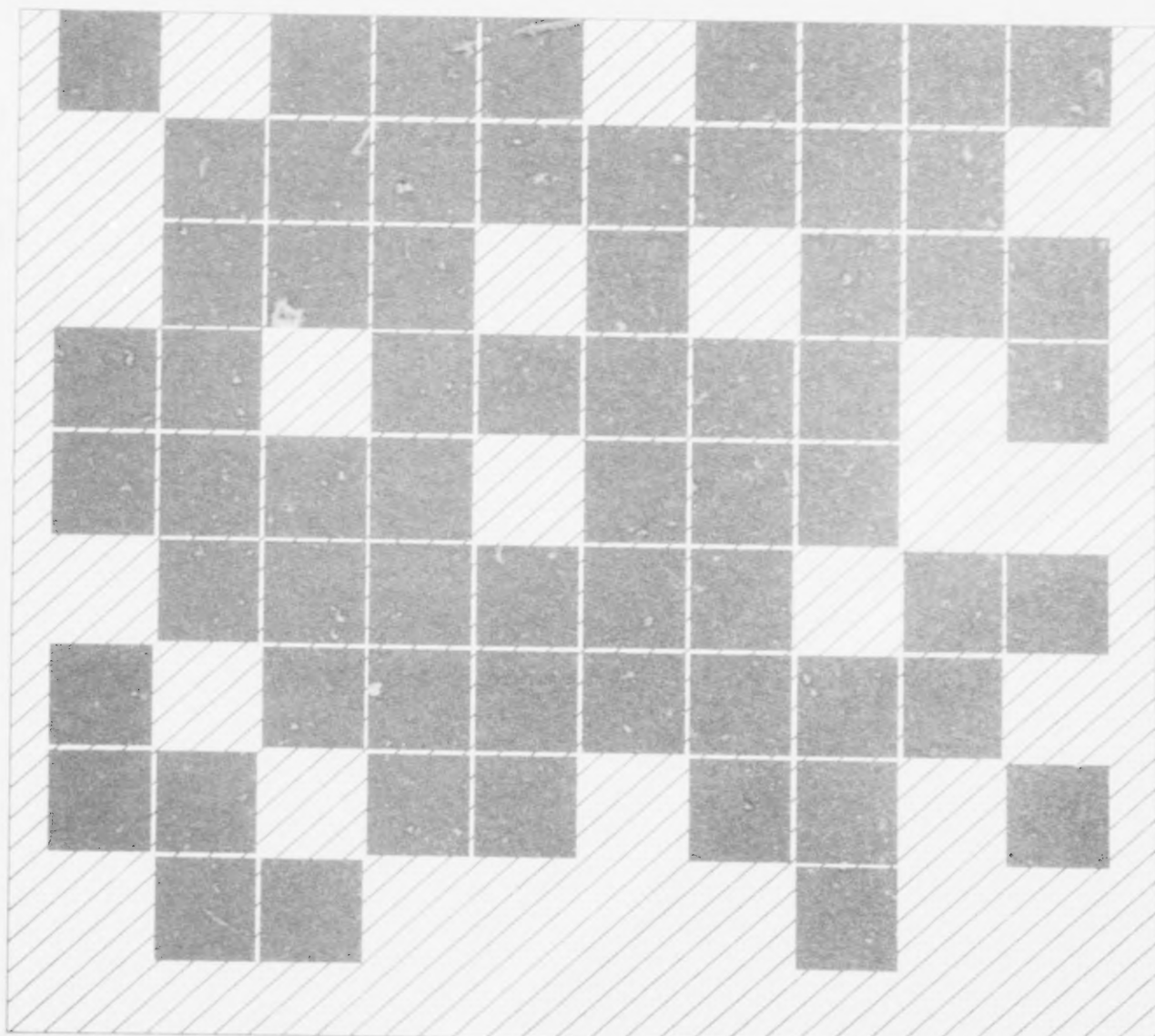
Office of
Student Financial
Assistance

Spring 1989



School Site Review Guide

A Guide for Guarantee Agencies
That Review Schools
Participating in the Guaranteed
Student Loan Program



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School Site Review Guide

A Guide for Guarantee Agencies
That Review Schools Participating in the
Part B Loan Programs

U.S. Department of Education
Office of Student Financial Assistance

Spring 1989

SCHOOL SITE REVIEW GUIDE:

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INTRODUCTION

This is the second edition of the School Site Review Guide. The Office of Student Financial Assistance (OSFA) has updated the site guide by incorporating or referencing recent programmatic changes. This guide also provides additional guidance where experience has indicated it is needed. Significant changes found in this edition of the School Site Review Guide are listed below.

- Throughout this guide, the programs authorized under Title IV, Part B, of the Higher Education Act of 1965, as amended, will be collectively referred to as the "Part B Loan Programs. These programs are:
 - * The Stafford Loan Program (formerly the Guaranteed Student Loan (GSL) program);
 - * The Supplemental Loans for Students Program (SLS);
 - * PLUS; and
 - * The Consolidation Loan Program.
- There are two new Chapters, "Sample Selection" and "Core Items".
- Several chapters have been expanded in response to requests for additional information. They are: "Fraud and Abuse", "The Written Report", and "Closing The Review".
- OSFA Regional Institutional Review addresses, Reviewer's Checklist and Lender Fraud and Abuse indicators were added to the Appendix.
- For ease of reference, the footnotes were moved from the bottom of the page and made into text notes. We have abbreviated the notes by deleting the reference to 34 CFR, to which they all refer.

PREFACE:
PURPOSE OF THE SITE REVIEW GUIDE

Schools participating in the Part B Loan Programs must comply with requirements as contained in 34 CFR 682, particularly Subpart F, as well as the General Provisions contained in 34 CFR 668. Also, each guarantee agency "shall take such measures and establish such controls, as are necessary to ensure its vigorous enforcement of all Federal, State, and guarantee agency requirements..." [682.410(c)]. This means that a guarantee agency must conduct, at a minimum, comprehensive biennial on-site program reviews of its ten largest participating schools plus any school whose loan volume equalled or exceeded 2% of all loans guaranteed by the agency in the preceding year [682.410(c)(1)(ii)]. In addition, schools are required to allow guarantee agencies access to their records in order to verify the school's compliance with applicable regulations [682.610(e)].

An agency may conduct a joint review of a school with another agency or establish a reciprocal agreement with another agency. Under a joint review, each participating agency is responsible for the quality of the review. Under a reciprocal agreement, the agency conducting the review is responsible for the quality of the review. We recommend that all reciprocal agreements state that the performing agency will conduct the review in accordance with the OSFA School Site Review Guide and that any unique requirements of the reciprocating agency will be included in the review.

The U.S. Department of Education recognizes there is limited time available to spend during an on-site review. It also recognizes that many guarantee agencies already use operational manuals to review their own forms, systems, and procedures; they are encouraged to continue using those materials. However, in the interest of standardization, the Department of Education has developed this review guide to identify certain minimum standards, or "Core Items," as defined by OSFA that should characterize a program review.

This guide is not a complete manual of procedures but a foundation to be built upon, with additions as needed. This guide is not intended to supplant the reviewer's judgment of work required based upon the reviewer's level of program knowledge concerning

the Part B Loan Programs and the reviewer's knowledge of the school being reviewed. Furthermore, the guide is based on current regulatory and statutory requirements.

Due to time constraints, the reviewer should focus on the institution's control systems. The reviewer should keep in mind that the General Accounting Office requires an internal control system to reasonably assure that the following objectives are achieved:

1. A plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies.
2. Resources are safeguarded against waste, loss, and misuse.
3. Reliable data are obtained, maintained, and accurately disclosed in reports.

The reviewer should test various program areas to determine that not only are internal controls being relied on, but that they are also operational. This site review guide will identify the areas to be reviewed.

Part I

Organizing The Review

These two chapters address preparing for the
Review and Conducting the Review

CHAPTER ONE:
IN-HOUSE PREPARATION

Adequate planning increases on-site efficiency.
Prepare beforehand by:

*Pre-
Review
Planning*

1. Accumulating and analyzing data;
2. Formulating a work plan;
3. Determining the number and tasks of reviewers consistent with the school's loan volume and scope of the review;
4. Coordinating with other agencies as needed; and
5. Distributing the review tasks among the reviewers.

Prepare and send a confirmation letter to the appropriate school official addressing the need to meet with the Financial Aid Officer, the Bursar, and the Registrar. Emphasize that it is imperative they, or their representatives, be available during your visit. The confirmation letter should state the scope of the review and emphasize the need for any specific reports or documents necessary to perform the review. Also indicate that the review will begin immediately following the entrance interview.

*Notify
The
School
of the
Review*

Develop a comprehensive working profile of the school using all available in-house resources including:

*Research
In-House
Statistics*

- 0 **Default Claims** -- to determine your agency's default claims history for the school. In addition, consult with the claims manager and other agency staff to determine, if possible, the school's number of withdrawals, job placement rate, and the nature of student

complaints received by the agency against the school.

**Research
In-House
Statistics
(cont'd)**

- O **Total Disbursements** -- to determine the total loan volume at the school and the average indebtedness of students.
- O **Loan Application Reject Rates and Reasons** -- to determine if the school shows any significant trends reflecting poor management at the application processing stage.
- O **Student Status Verification Responses** -- to determine the timeliness and accuracy of the school's responses, that is, within 30 days of receipt [682.610(c)].
- O **School Refunds Received by Guarantor** -- to identify late payments and possible cash flow problems, if such refunds are received by the guarantor after default.
- O **Training Attendance** -- to note school's attendance at recent training events/workshops and any staff turnover problems.

Note: If doing a joint or a reciprocal review, information possessed by each guarantee agency must be taken into consideration.

**Check
Recent
Reviews
and
Audits**

Contact the appropriate OSFA Regional Office [the regional office serving the state in which the guarantee agency is located] to determine the date of the most recent review or audit conducted. Request a copy of the review or audit if not already on file with the guarantee agency and consult with the reviewer/auditor as necessary. (Lists of ED Regional Offices for OSFA and for OIG/Audit are included in the Appendix.)

**Indicators
of Fraud
Or
Compliance
Problems**

Determine the existence of indicators of suspected fraud or compliance problems. Contact the OIG Regional Office and consult with an investigator concerning any preliminary or final findings and student complaints. (A list of ED Regional Offices for OIG/Investigations is included in the Appendix.)

Research the school/program eligibility, including any branch campuses. Research school ID number to determine that eligibility is current [682.600 and 34 CFR 668 of the General Provisions]. Determine which programs offered by the school are eligible and which, if any, branch campuses are included under the school's ID number.

*Review
Eligibility*

Obtain and read the school catalogue--it may contain the following types of information [Section 485, the Higher Education Act of 1965, as amended]:

*Review
School's
Consumer
Information*

- * Consumer information;
- * Financial aid policy and appeals policy;
- * Standards for satisfactory academic progress;
- * Refund policy and procedures for obtaining a refund;
- * Procedures for officially withdrawing;
- * Student budgets;
- * Average student indebtedness; and
- * Admission criteria and ability to benefit.

Identify a small sample of enrolled, graduated, and withdrawn students. The use of statistical sampling techniques is recommended for reviews which may require extrapolation of the review findings.

*Research
Student
Files*

CHAPTER TWO:
SAMPLE SELECTION

The following steps outline procedures for sample selection and, if warranted, file reconstruction.

*Select
Sample*

Prior to each program review, the program reviewer should select a sample of files which will be used by the reviewer to determine a school's compliance with applicable law and regulations.

When preparing to conduct the program review, the reviewer should determine the time period which will be examined during the review. This time period should also be stated in the scope of the review in the confirmation letter. Normally this time period is two years.

Using guarantee agency records, the reviewer should identify the population of loans guaranteed, loans cancelled, and student status changes for the school for the period of the review. From this population of loans, the reviewer should select a sample of 30-50 loans to be examined during the review. The reviewer may use any statistical sampling technique that the agency deems appropriate. A random sample is to be used with any technique chosen. The ED publication, "Statistical Sampling Handbook for Student Aid Programs", published Winter 1984, contains useful information for computing samples.

When on-site, the program reviewer should review the files of the loans selected in the sample. If the reviewer encounters a specific problem in the sample (e.g. late refunds) which occurs with a frequency greater than 10 percent, the school should be directed to review all of its files for the deficiency for the period of the review. If the reviewer has reason to believe that the problem occurred prior to the scope of the review, the reviewer should direct the school to also review its files for the earlier period.

*File
Review*

Procedures	The reviewer may find it necessary to select a judgmental sample to gather more information on a specific problem area. Under those circumstances, the reviewer may depart from using scientific sampling techniques.
Determine Time Period for Review	If a 100 percent file review becomes necessary, the reviewer should closely monitor the progress of that file review by establishing precise deadlines and time tables for the file review work. Depending on the complexity of the work, a school may be allowed up to 90 days to complete the file review. However, the school should provide the reviewer with periodic progress reports.
School has Option	If the number of files to be reviewed is large, the school may be given the option of using a statistical sample. The sample size should provide a confidence level of 95 percent and the results of the review should be certified by an independent certified public accountant.
Identify Loan Population	There may be instances when the reviewer knows in advance the school has specific problems. In these instances, the reviewer may want to use a scientific sample from which the results can be extrapolated with a high degree of confidence.
Assess Liability	When the file review is completed, the school must report the results of the review to the agency. This will be the basis for assessing a liability against the school.

CHAPTER THREE:
THE ENTRANCE INTERVIEW

1. Explain the scope and purpose of the review. This should be consistent with the scope of the review as contained in the confirmation letter.
2. Explain the responsibility of the school to "establish and maintain proper administrative and fiscal procedures and all necessary records" to protect the rights of student and parent borrowers and protect the United States from unreasonable risk of loss [682.610]. This is also agreed to as part of the school's participation agreement.
3. Emphasize that due to time constraints the review cannot be all inclusive and this does not preclude the school's obligation to comply with all applicable Federal, State, and guarantee agency regulations.
4. Obtain the names and locations, including telephone extensions, of various staff members with whom the reviewer will be working.
5. Request an overview of the school and it's Part B Loan programs procedures and internal operational forms. Obtain a copy of the school's policies and procedures for administering financial aid programs, as well as student financial aid and consumer publications that the reviewers may not already have.
6. Inform the school official of subsequent review procedures and the expected time frame for responses.

*Elements
of
The
Entrance
Interview*

**Elements
of
The
Entrance
Interview
(cont'd)**

7. Schedule the exit interview and arrange for staff attendance, as needed. Explain that the findings and recommendations will be discussed during this time.
8. Explain that the review is also for the purpose of identifying training needs and providing technical assistance.

PART III

Closing The Review

These chapters address the effective closure
of the review.

CHAPTER FOUR:
CORE ITEMS

The Office of Student Financial Assistance has developed a list of core items which should be included in a school review if it is to be considered a comprehensive program review.

*Core
Items*

The Core Items are:

1. Student eligibility
2. Procedures for releasing loan proceeds
3. Student status control
4. Timely and accurate refunds
5. Borrower exit interviews
6. School defaults

Appendix F contains a checklist for the reviewer to ensure that these core items are examined. It is intended to be a quick reference guide to essential areas of a comprehensive review.

*Checklist
in
Appendix
F*

CHAPTER FIVE:
REVIEW OF THE LOAN APPLICATION PROCESS

Financial Aid Office Responsibilities

The Financial Aid Officer (FAO) has many responsibilities in conjunction with certification of the borrower's loan application. The reviewer must determine to what extent the school's procedures ensure that the application process is complete, accurate, and complies with 34 CFR 682.603 and 682.610 of the Part B Loan Program regulations. Remember, the person certifying the application cannot disburse the funds.

Specifically, the FAO has the obligation to certify that the borrower meets the eligibility criteria [682.201 and 682.603]. The FAO must ensure and document that the student:

*Certifying
Borrower
Eligibility*

- * Provided his/her Social Security Number;
- * Is a U.S. citizen or national, or an eligible non-citizen;
- * Is enrolled on at least a half-time basis in an eligible program;
- * Is maintaining satisfactory academic progress when the loan is certified and at the time of each disbursement;
- * Has not exceeded maximum annual or aggregate loan limits;
- * Is not in default on any Title IV loan unless the student has made acceptable arrangements with the holder of the loan to repay the amount owed [The reviewer should verify loan application information with the student's financial aid transcript, when it is necessary and when available].

***Certifying
Borrower
Eligibility
(cont'd)***

- * Does not owe a refund on any Title IV grant unless satisfactory arrangements have been made to repay the amount owed [see note above].
- * Was not certified for a PLUS loan until a financial aid transcript was received when a student has attended another eligible institution.
- * Has met Selective Service Registration requirements;
- * Has had a determination of Pell Grant eligibility or ineligibility and if eligible for a Pell Grant, the student has applied for a Pell Grant before the school may certify the Stafford loan application.
- * Has had a determination of Pell Grant eligibility or ineligibility, and if eligible for a Pell Grant, the student has applied for a Pell Grant before the school may certify the SLS loan application. In addition, the school must determine if the student is eligible for a Stafford loan and if eligible, the student must apply for a Stafford loan before the school may certify the SLS application [See Public Law 100-369];
- * Has documentation of ability to benefit, if needed.

***Proper
Records
Maintained***

During the certification process, the FAO must maintain records as required, including:

- * Documentation of the construction of the student budget used in calculating estimated cost of attendance as defined by 34 CFR 682.200 [682.610(b)(4)].
- * Documentation of application for Pell Grant and determination of Pell Grant eligibility before Stafford or SLS loan certification. Documentation of application for Stafford loan and determination of eligibility before SLS certification [See Dear Colleague Gen 88-34, October, 1988].
- * A copy of the loan application showing the borrower's name, lender's name and address, loan amount and loan period [682.610)(b)].

- * Evidence of submission of the loan application to the lender or return of the application to the student for submission to lender.
- * Documentation reflecting use of an approved need analysis system resulting in a determination of the student's dependency status, adjusted gross family income and, when applicable, expected family contribution [682.610(b)(6)]. Eligibility for loan amount and interest benefits can then be documented.
- * Evidence of coordination with other financial aid to **avoid overawarding**. The loan cannot exceed the cost of education less family contribution and estimated financial assistance as defined in the regulations.
- * Evidence that FAO is not certifying loan applications for amounts beyond annual or aggregate loan limits.
- * Maintenance of an audit trail of the following dates [682.610(b)]:
 - o Tuition Payment;
 - o Receipt of each loan disbursement amount;
 - o School endorsement of check (when applicable); and
 - o Transmittal of loan proceeds or check to student.
- * Retention of records--all loan records must be kept for a period of five years following the last day of the period for which the loan was intended. They may be on readable microfilm or in computer format [682.610(d)(2)(4)].
- * A record of the student's job placement, if known [682.610(b)(8)].

*Proper
Records
Maintained
(cont'd)*

Schools are now required to conduct exit interviews for Stafford and SLS borrowers. This applies to borrowers whose period of enrollment begins on or after July 1, 1987, and must be documented. The

*Stafford/SLS
Borrowers
Exit
Interview*

**Stafford/SLS
Borrowers
Exit
Interview
(cont'd)**

school must provide the borrower with the following information;

- * Amount of **indebtedness** at the school for both Stafford and SLS and Perkins loans;
- * Anticipated **monthly payment**
- * Payment options; and
- * Debt management **counseling** available, including loan consolidation.

In the event the student leaves school without the prior knowledge of the school, the above information must be sent to the student in writing. Documentation of this mailing must be maintained in the student's file. The lender should be notified as soon as possible of the student's exit from school.

CHAPTER SIX:
REVIEW OF PROCEDURES FOR RELEASING LOAN PROCEEDS

BURSAR'S OFFICE RESPONSIBILITIES

Except in the case of PLUS Loans to parent borrowers, and Stafford/SLS borrowers attending a foreign school, Stafford and SLS loan proceeds are sent directly to the school by the lender or the lender's escrow agent. The school is the custodian of the loan proceeds, and thus must have an audit trail of its receipt, endorsement when applicable, and release of funds. Most importantly, the school must make certain the student is still eligible (as defined under 34 CFR 682.201 of the Part B Loan programs regulations) especially with respect to being an enrolled student and maintaining satisfactory academic progress prior to the release of the loan proceeds.

*Audit
Trail
for
Loan
Proceeds*

The regulations establish the rules governing the school's processing of a borrower's loan proceeds. The reviewer must be familiar with 34 CFR 682.604. The reviewer must look specifically at the following procedural mandates placed upon the school:

*Processing
Procedures
for
Loan
Monies*

- * A student must be registered for classes on at least a half-time basis for the period of enrollment for which the loan is intended [682.604(c)(1)]. The student must have been eligible to receive the loan proceeds at all times, up to and including the date the school releases the loan proceeds to the students.
- * The school must process the loan proceeds as required by 34 CFR 682.604(c). If the student gives written authorization to the school to retain any excess loan proceeds, that written authorization should also state that the student has the right to rescind that authorization.

**Processing
Procedures
for
Loan Monies
(cont'd)**

- * The school **may not credit** the student's account any earlier than 21 days before the first day of classes [682.604(d)(1)(i)]. The amount credited may not exceed the student's outstanding bill unless the student has given the school written authorization to retain any excess funds [682.604(d)(1)(ii)].
- * The school may not release loan proceeds to the student any earlier than 10 days before classes begin [682.604(d)(2)].
- * Prompt delivery of loan proceeds to a borrower is defined to be a period not to exceed 45 days from the date the borrower is first eligible to receive those funds.
- * In cases requiring a student's financial aid transcript (FAT) or verification information, the school **may not deliver the loan proceeds** until receipt of the FAT or verification documentation. The school must return the loan proceeds to the lender if the FAT is not received within 45 days of the school's receipt of the loan proceeds [682.604 (c)(4)].
- * If permitted by the guarantor, the **electronic transfer of funds** from the lender or an escrow agent to the school's account is **allowed**. However, the school must receive written authorization from the student to withdraw the proceeds [682.604(c)(3)].
- * The school must **return the loan proceeds** within 30 days of determining that the student has not registered or if the student does not meet any of the other eligibility requirements [682.604(d)(3)].
- * In the case of a **student who is never enrolled**, the school must return to the lender the amount of any credited funds, as well as any loan proceeds delivered to the student and subsequently paid to the school [682.604(d)(4)].
- * **Late disbursements**, as defined by 34 CFR 682.604(e), are allowed only if approved by the guarantor and accompanied by notice or blanket approval. Otherwise, the loan proceeds must be returned to the lender within 30 days

[682.604(e)(3)(i)]. The school must advise the student that there is a procedure to obtain some, or all, of the loan proceeds, if approved by the guarantee agency [682.604(e)(3)(iii)].

- * In the case of a student who withdraws, the school must return those loan proceeds attributed to subsequent payment periods [34 CFR 668.22]. Unused loan proceeds must be returned to the lender not, the borrower.

*Processing
Procedures
for
Loan
Monies
(cont'd)*

CHAPTER SEVEN:
REVIEW OF STUDENT STATUS VERIFICATION

THE REGISTRAR AND RELIABLE STUDENT STATUS
INFORMATION

In order for the financial aid officer and bursar to comply with the requirements for determining student eligibility and releasing loan proceeds to the student, they must have reliable student status information. The registrar is to be made aware of the importance of this information as it may affect the school's administrative capability to participate in the program. Specifically, the registrar must be aware of the requirements set forth in 34 CFR 682.604, 682.605, and 682.610 of the Part B Loan programs regulations. The reviewer must evaluate the school's compliance in the following areas:

*Registrar's
Office
Responsi-
bilities*

- * Determining both **registration and enrollment status** in a timely and accurate manner, as requested.
- * Determining **withdrawal dates** accurately for both official and unofficial withdrawals.
- * Using the **last day of classes attended** for a student who has completed a program of study [682.605].

Notification responsibilities are one of the cornerstones of the Part B Loan programs. Current and accurate student status tracking affects school liabilities, loan processing, refunds, conversion to repayment, deferments, and guarantee agency reporting responsibilities to the U.S. Department of Education. The school must notify the lender directly or through the guarantee agency, of any change in the student's name or permanent address, as well as certain changes in student status, as identified on agency status confirmation reports.

*Reporting
Change
in
Student
Status*

**Reporting
Change
in
Student
Status
(cont'd)**

Schools may be held liable for any undue loss to the Federal government arising from deficient student status tracking and reporting procedures. These notification responsibilities include the following:

- * Upon receipt of a **student status confirmation report** from a guarantee agency, the school must complete and return it within 30 days [682.610(c)(1)].
- * Promptly **notify the lender**, directly or through the guarantee agency, of any change in student's name or permanent address, and of any change to less than half-time enrollment.
- * Promptly **notify the lender** of changes in student status if the school does not expect to submit a student confirmation report within 60 days [682.610(c)(2)(i)].
- * Accurately report the **withdrawal date** in the case of a student who was granted a leave of absence but never returned. In such a case, the withdrawal date is the first day of the leave of absence [682.605(b)(2)].
- * Accurately report the date that a student completed a program of instruction, using the **last day of classes**, not the graduation date.
- * Accurately report the **date** that a student dropped to **below half-time status**, as defined by the school.
- * Make all **reporting dates month-specific** for purposes of reporting status changes. However, for purposes of calculating the amount of refunds due to students, reporting dates must be date-specific, if the actual date is known.

**CHAPTER EIGHT:
SCHOOL REFUNDS**

Schools must have a "fair and equitable refund policy" for students receiving Stafford or SLS loans or for whom a PLUS loan has been obtained. The policy must address refunds for students who either do not register, or who withdraw or otherwise fail to complete their period of enrollment. Reviewers must be familiar with 34 CFR 682.605, 682.606, and 682.607 of the Part B Loan programs regulations and 34 CFR 668 of the General Provisions regulations pertaining to refunds. In particular, the reviewer should review the school determination of withdrawal dates and verify that appropriate refunds and attribution payments have been sent to lenders on a timely basis.

***Refund
Policy***

When completing the Stafford or SLS application, students authorize schools to pay refunds allocable to Stafford and SLS loans directly to the lender on their behalf. Similarly, by applying for a PLUS loan, a parent authorizes the school to pay a refund directly to the PLUS lender. The school must notify the borrower and, if the borrower is a parent, the student on whose behalf the loan was made, in writing of such a payment. A school must pay a refund within 30 days after the date of the student's withdrawal from school [682.207(c)(1)]. When a student unofficially withdraws (drops out), the school must pay the refund within 30 days after the earliest of:

***Disposition
of
Funds***

1. The date of the school's determination that the student withdrew;
2. The commencement of the next scheduled academic term (i.e. semester, quarter, or other academic period established by the school following the expiration of the academic term in which the student was last enrolled; or

**Disposition
of
Funds
(cont'd)**

3. The date of the school's determination, based on the application of its satisfactory academic progress policy, that the student is not, due to non-attendance, making satisfactory academic progress.

Note: The final Default Reduction regulations contain significant revisions to 34 CFR 682.607. These regulations will be in effect shortly after the publication of this Guide. Reviewers should note that this guidance on timely refunds will change with the effective date of the Default Reduction regulations, and that they should use the Default Reduction regulations for refunds calculated after the effective date of those regulations.

Failure by the school to pay in a timely manner may result in a fine payable to the U.S. Department of Education or other administrative action.

**CHAPTER NINE:
FRAUD AND ABUSE**

A Guarantee agency "shall take such measures, and establish such controls, as are necessary to ensure its vigorous enforcement of all Federal, State, and Guarantee agency requirements applicable to its loan guarantee program" [682.410(c)]. This includes at least the following actions guarantee agencies must take:

Identify***Investigate***

- * Adopt procedures for identifying fraudulent loan applications.
- * Undertake, or arrange with State or local law enforcement agencies for, prompt and thorough investigation of all allegations and indications of criminal or any programmatic misconduct.
- * Report to the OIG for Investigations:
 - o all allegations of fraud and abuse;
 - o indications of fraud and abuse having a substantial basis in fact; and,
 - o the scope, progress, and results of the agencies' investigations.
- * Refer appropriate cases to State or local authorities for criminal prosecution or civil litigation.

Report***Refer***

The following steps summarize methods which may be used by the reviewer to identify errors and irregularities which may be indications of fraud and abuse. A reviewer should:

***Detecting
Fraud and
Abuse***

**Detecting
Fraud and
Abuse
(cont'd)**

- Establish and follow sound review procedures.
- Use normal review procedures to identify errors and irregularities.
- Follow up on any patterns of error or high frequency of irregularity. These irregularities could be the first indications of fraud and abuse.
- Gather as much information as needed to document these instances of potential fraud and abuse.

**Use
Care
When
Documenting
Abuse**

When the reviewer has gathered enough information or documentation to be reasonably certain that fraud and/or abuse has occurred he/she should not question, interview nor alert the suspected abuser(s) about the questionable matter.

- Use professional judgement and due care relative to illegal acts so as not to interfere with present or future investigations. Due care would include consulting appropriate legal counsel and/or the applicable law enforcement agency where appropriate to determine what procedures should be followed.
- Attempt to obtain photocopies of questionable documents if possible without alerting suspected abuser(s).
- Report all information to the appropriate Regional OIG and OSFA Regional Office.

**Warning
Signals**

A key factor in preventing and detecting fraud and abuse is the recognition of circumstances that frequently allow these practices to go unseen. The following examples of problems encountered during a review often help reviewers to identify potential fraud and abuse.

- Incomplete or missing documentation and authorizations;
- Unsigned documentation;
- Alteration of documentation;

- Inability to obtain evidence to verify unusual or unexplained accounting entries;
- Problems encountered in performing the examination, (e.g., delaying tactics or evasive or unreasonable responses to reviewers inquiries);
- Poor or sloppy record maintenance to conceal fraud, abuse or misuse;
- Inadequate reporting systems;
- Widely dispersed locations coupled by greatly decentralized management;
- Insufficient or inadequately trained staff relative to workload; or,
- Unusual increases in volume or activity.

**Warning
Signals
(cont'd)**

The Higher Education Act prohibits eligible lenders and guarantee agencies from offering or paying certain inducements in connection with loans made under Title IV, Part B, of the Act. A violation of these provisions may result in the offender's disqualification from further program participation, and/or other sanctions. These provisions prohibit the direct or indirect offering or payment of any kind of financial incentive by a lender to any entity or person to secure applicants for Part B loans, or by a guarantee agency to a school or affiliated entities or individuals for that purpose, regardless of the form of the incentive or its mode of payment [See Inducements Prohibited under the Part B Loan Programs, Bulletin 89-L-129 and 89-S-55].

**Prohibited
Inducements**

The Inspector General for Investigation has published a pamphlet entitled "Special Fraud Alert". It includes a checklist of indicators to assist a reviewer in spotting potential fraud in student aid. A copy of this pamphlet and a list of regional offices of the Inspector General for Investigations is included in appendices C & D.

**CHAPTER TEN:
LIABILITIES**

Schools, by virtue of their execution of participation agreements, agree to comply with all applicable Title IV laws and regulations as stated in 34 CFR 682.600 of the Part B Loan programs regulations. Furthermore, 34 CFR 682.609(a) allows the U.S. Department of Education to require a "school to repay to the Secretary funds paid by the Secretary to other program participants" if the payment resulted from a violation on the part of a school of a Federal statute or regulation. Other program participants include students, lenders, and guarantee agencies.

*School
Responsi-
bilities
and
Agreement
To
Comply*

A school must correct violations which occurred prior to the scope of the review or prior to the effective date of 34 CFR 682.410(c). A school must also repay all liabilities which occurred both prior to and within the scope of the review.

Previous parts of this review guide have addressed the need for communication between the school's financial aid office, bursar, and registrar. Lack of communication may result in a program review discrepancy citation leading to a liability. Some examples of discrepancies include:

*Sample
Findings
Resulting
in
Monetary
Liabilities*

*** Ineligible loan due to the following:**

- o Ineligible student;
- o Incorrect need analysis resulting in overawards;
- o Ineligible program;
- o Ineligible branch campus;
- o No receipt of statement of educational purpose, or if applicable, FAT, selective service registration, no Pell determination or verification documentation.

*** Release of funds to a student who either has never enrolled or who ceased to attend at least**

**Sample
Findings
Resulting
in
Monetary
Liabilities
(cont'd)**

half-time prior to receiving the funds (except in the case of an approved late disbursement), or any other improper release of funds to a student.

- * Failure of a school to return Part B loan proceeds to a lender in cases where the student has withdrawn and a portion of the loan is attributable to a subsequent payment period [34 CFR 668.22].
- * No refund.
- * Incorrect refund.
- * Late refund, and failure to pay interest or special allowance to the lender.
- * Refund to student instead of to the lender.
- * Incorrect student status data, resulting in either an ineligible loan or a delay in a repayment conversion.

**Liability
May
be
Assessed**

Occurrence of the above errors can cause the Department to pay a lender too much interest and special allowance, and could jeopardize the lender's collection of the account if information is not received on a timely basis. In either case, if the school's violation of regulations has caused the Federal government to pay out excess funds, a liability or fine should be assessed against the school and administrative action may be taken.

**Monitor
Implement-
ation of
Corrective
Action**

The reviewer must seek prompt repayment of all funds found during the review to have been improperly retained by the participants. The reviewer should monitor the implementation of the corrective actions required of the participants as a result of the review [682.410(c)(2)].

**Seek
Prompt
Repayment
of all
Liabilities
Determined**

The reviewer must calculate the amount owed, including principal, interest, and special allowance, and advise the school of that amount. Instructions for calculating interest and special allowance liabilities using a simplified formula are contained in Appendix G. Detailed instructions for handling liability payments are described in chapter 12, "Closing the Review".

The Department of Education may assess a fine in any case involving a violation of the school's program participation agreement.

The reviewer may consult with the appropriate Regional Institutional Review Branch, if there are questions regarding the appropriateness of a particular liability.

*Notify
Regional
Office*

PART II

CONDUCTING THE REVIEW

At this point the reviewer should begin the on-site review by drawing the files for the pre-selected random sample of borrowers. The reviewer should then be able to reach conclusions regarding the administrative and fiscal practices of the financial aid office, bursar's office, and registrar's office. The responsibilities of these three offices will be identified in the next three chapters.

NOTE: The reviewer should be aware that, depending on the division of duties at a particular school, the responsibilities may not be compartmentalized in this manner.

CHAPTER ELEVEN:
THE EXIT INTERVIEW

There are several steps to follow in conducting a suitable exit interview. These are:

*Elements
of
the
Exit
Interview*

- * Describe the review format and the scope of the review.
- * Explain findings and recommendations as well as any liability issues.
- * Solicit informal responses at this time to be sure there is no misunderstanding on the part of the reviewer or the school.
- * Advise the school that a written report will follow, and approximate an expected arrival date of that report.
- * The school is required to respond in writing to the review report. Advise the school of the date by which it should respond.
- * Advise the school that an extension may be granted, if the school is not able to comply within the established time period. A request for an extension must be written and must state the reason(s) the school cannot comply.

CHAPTER TWELVE:
THE WRITTEN REPORT

A clearly written report enhances the effectiveness of the program review and assists in a prompt closure to the review. The reviewer is required to determine and report on whether the school has internal control systems to provide reasonable assurance that it is managing its Part B loan programs in compliance with applicable law and regulation. All instances of noncompliance must be reported as findings. If the reviewer is aware of instances of significant noncompliance in other Title IV student aid programs, the reviewer should alert the Institutional Review Branch Chief in the appropriate regional office.

*Report
All
Findings*

A cover letter should accompany the report which, at a minimum, does the following.

*Cover
Letter*

- o Addresses the Chief Executive Officer (copy to the Financial Aid Officer);
- o States the purpose and scope of the review;
- o Cites dates of the review;
- o Cites dates for response;
- o Refers to attached report;
- o Thanks school for cooperation;
- o Provides name and phone number of Guarantee Agency contact; and
- o Includes Part B Programs School I.D. code number in the cover letter.

***Procedures
for
The
Written
Report***

The recommended format for this report follows.

- * The report should have a cover page which lists the following items: institution name, branch (if applicable), telephone number, accreditation, reviewer(s) dates of review, institutional official contacted, programs reviewed, sample size and award years reviewed.

***Scope
and
Disclaimer***

- * The report should describe the scope of the review, and should include a disclaimer citing any limitations of the review.

***Describe
Each
Finding***

- * Each finding should:
 - o Describe the problem that resulted in non-compliance;
 - o State the number of occurrences of each type of non-compliance;
 - o Identify each occurrence by borrower name, SSN, account number, etc.; and,
 - o Indicate the liability amount of each occurrence, (if known).
- * Each finding should be addressed separately under the headings:
 - o Finding
 - o Citation
 - o Required or Recommended Action -- Use "Recommended Action" only if there is no regulatory or statutory citation.

***Response
Deadline***

The conclusion of the report should clearly specify deadlines for the school to comply with the required actions and for the school to respond in writing to the report.

***Coordination
With
ED***

The guarantee agency should send two copies of the required report, with a transmittal letter, to the Lender and State Agency Review Branch (LSARB) of the Division of Audit and Program Review (DAPR). Send the report and transmittal letter to:

Lender and State Agency Review Branch
Division of Audit and Program Review, OSFA
U.S. Department of Education
ROB-3, Room 3717-Mail Stop 5354
400 Maryland Avenue, S.W.
Washington, D.C. 20202-5354

*Coordination
With
Ed
(cont'd)*

The transmittal letter should clearly state the number and amounts of any liability checks mailed with the reviews. The guarantee agency may want to mail the reviews and checks separately using a separate transmittal letter or form to forward liability checks.

Transmittal letters with liability checks enclosed should be forwarded to :

Lender and State Agency Review Branch
Division of Audit and Program Review, OSFA
U.S. Department of Education
P.O. Box 23800
L'Enfant Plaza Station
Washington, D.C. 20026

For additional information on closing a review, refer to "Dear Guarantee Agency Director" letter dated September 21, 1988 (88-G-149).

**CHAPTER THIRTEEN:
STEPS FOR CLOSING THE REVIEW**

Upon receipt of the school's response to the review report, the guarantee agency must resolve each issue identified in the report in order to close the review.

*Elements
of
Review
Closure*

1. Establish a procedure to track applicable compliance deadlines.
2. Review the school's written report to determine that it addresses all findings and describes implementations of required actions.
3. Set up a procedure to monitor the school's implementation of corrective actions required by the agency as a result of the review [682.410(c)(2)].

Corrective Action Requires No liability Payment:

*Report
Closure
Procedures*

- o Determine that corrective action was or will be appropriately implemented.
- o If all findings are resolved, notify the school of review closure.
- o Send notification of review closure to DAPR in Washington.

Corrective Action Requires Payment of Liability [See Appendix G]:

- o Send demand letter with payment instructions.
- o Total liabilities less than \$50.00 need not be assessed.
- o Agency forwards liability payments to DAPR.

**Referrals
to
ED
Regional
Offices**

Occasionally, an agency's vigorous efforts to close a review will be unsuccessful because the school is uncooperative in taking the required corrective action. It may be necessary to refer those cases to the appropriate regional office for follow-up [Bulletin 88-G-149, 9/21/88]. In those instances the agency should do the following:

- o Send the school three forceful notices, one every 30 days, which seeks compliance with the specific corrective actions required by the review.
- o Forward the agency's recommendation for follow-up action to the appropriate regional office's Guaranteed Student Loan Branch. The agency's referral should include:
 - a chronology of events relating to the dispute;
 - a summary of the issue(s) in dispute; and
 - all correspondence relating to the review.

The regional office will review the agency's recommendation. When the regional office agrees with the recommendation, it will contact the school and take the appropriate action to close the review. If the regional office needs additional information or disagrees with the recommendation, it will discuss the issue with the agency before contacting the school.

APPENDICES

- A. (1) List of OSFA GSL Regional Offices and States Served
(2) List of OSFA Institutional Review Regional Offices and States Served
- B. List of Offices of Inspector General for Audit and States Served
- C. List of Offices of Inspector General For Investigation and States Served
- D. (1) "Special Fraud Alert" Pamphlet Published by
OIG/Investigation
(2) School Indicators of Fraud and Abuse
- E. Part B Loan Programs Reference Citations: Laws and Regulations
- F. Reviewer's Checklist
- G. Simplified Approach to Assessing Interest and Special Allowance Liabilities

APPENDIX A (1):

Office of Student Financial Assistance, Regional Guaranteed Student
Loan Branches, Contacts for Part B Loan Program Reviews

<u>REGIONS</u>	<u>STATES SERVED</u>
I Guaranteed Student Loan Branch Student Financial Assistance Programs J.W. McCormack, Post Office and Courthouse Building 5 Post Office Square, Room 510 Mail Stop 01-0070 Boston, MA 02109 (617) 223-9333	Connecticut, Maine Massachusetts, New Hampshire, Rhode Island, Vermont
II Guaranteed Student Loan Branch Student Financial Assistance Programs 26 Federal Plaza, Room 3954 Mail Stop 02-1081 New York, NY 10278 (212) 264-8143	New Jersey, New York Puerto Rico, Virgin Island (PLUS: Lender/ Guaranteed Agency Review for District of Columbia, Delaware, Maryland, Pennsylvania, Virginia, West Virginia)
IV Guaranteed Student Loan Branch Student Financial Assistance Programs P.O. Box 1692 Atlanta, GA 30301 (404) 331-0526	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee
V Guaranteed Student Loan Branch Student Financial Assistance Programs 401 South State Street Room 700-D, Mail Stop 05-4080 Chicago, IL 60605 (312) 353-0377	Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin
VI Guaranteed Student Loan Branch Student Financial Assistance Programs 1200 Main Tower Bldg., Room 2150 Mail Stop 06-5080 Dallas, TX 75202 (214) 767-3811	Arkansas, Louisiana, New Mexico, Oklahoma, Texas (PLUS: Lender/ Guarantee Agency Review for Iowa, Kansas, Missouri, Nebraska)

IX Guaranteed Student Loan Branch
Student Financial Assistance Programs
50 United Nations Plaza
Room 250, Mail Stop 09-8080
San Francisco, CA 94102-4987
(415) 556-1630

Arizona, California,
Hawaii, Nevada, American
Samoa, Guam, Trust
Territory of the Pacific
Islands (PLUS: Lender/
Guarantee Agency Review
for Colorado, Montana,
North Dakota, South
Dakota, Utah, Wyoming,
and Alaska, Idaho,
Oregon, Washington)

Appendix A (2):

Office of Student Financial Assistance, Regional Institutional
Review Branch, Contacts for Part B Loan Program Reviews

<u>REGIONS</u>	<u>STATES SERVED</u>
I Institutional Review Branch Student Financial Assistance Programs J.W. McCormack Post Office and Courthouse Building, Mail Stop 01-0070 5 Post Office Square, Room 510 Boston, MA 02109 (617) 223-9338	Connecticut, Maine Massachusetts, New Hampshire, Rhode Island, Vermont
II Institutional Review Branch Student Financial Assistance Programs 26 Federal Plaza, RM 3954 Mail Stop 02-1081 New York, NY 10278 (212) 264-4046	New Jersey, New York Puerto Rico, Virgin Islands
III Institutional Review Branch Student Financial Assistance Programs 3535 Market Street, Room 16200 Mail Stop 03-2080 Philadelphia, PA 19104 (215) 596-1018	Delaware, District of Columbia, Maryland Pennsylvania, Virginia West Virginia
IV Institutional Review Branch Student Financial Assistance Programs P.O. Box 1692 Atlanta, Georgia 30301 (404) 331-0556	Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee
V Institutional Review Branch Student Financial Assistance Programs 401 South State Street, RM 700-D Mail Stop 05-4080 Chicago, IL, 60605 (312) 353-0375	Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin
VI Institutional Review Branch Student Financial Assistance Programs 1200 Main Tower, RM 2150 Mail Stop 06-5080 Dallas, Texas 75202 (214) 767-3811	Arkansas, Louisiana, New Mexico, Oklahoma, Texas

- | | | |
|------|--|--|
| VII | Institutional Review Branch
Student Financial Assistance Programs
P.O. Box 901381
Kansas City, Missouri 64190-1381
(816) 891-8055 | Iowa, Kansas,
Missouri,
Nebraska |
| VIII | Institutional Review Branch
Student Financial Assistance Programs
1961 Stout Street, 3rd Floor
Mail Stop 08-7080
Denver, CO 80294
(303) 844-4128 | Colorado, Montana,
North Dakota, South
Dakota, Utah
Wyoming |
| IX | Institutional Review Branch
Student Financial Assistance Programs
50 United Nations Plaza, RM 227
Mail Stop 09-8080
San Francisco, CA 94102-4987
(415) 556-5689 | Arizona, California,
Hawaii, Nevada,
American Samoa, Guam,
Federated States of
Micronesia, Palau,
Marshall Islands, and
the Commonwealth of
the Northern Marianas |
| X | Institutional Review Branch
Student Financial Assistance Programs
915 Second Ave, RM 3388, MC 10-9081
Seattle, WA 98174-1099
(206) 442-0434 | Alaska, Idaho, Oregon,
Washington |

APPENDIX C:

Office of Inspector General for Investigation

<u>REGIONS</u>	<u>STATES SERVED</u>
II Regional IG for Investigation Department of Education 26 Federal Plaza, Room 3739 New York, NY 10278 (212) 264-4104	New Jersey, New York Puerto Rico, Virgin, Islands PLUS: OIG for Connecticut, Maine, Vermont, Massachusetts, New Hampshire, Rhode Island
III Regional IG for Investigation Department of Education P.O. Box 13716 Philadelphia, PA 19101 (215) 569-1021	District of Columbia, Delaware, Maryland, Pennsylvania, Virginia, West Virginia
IV Regional IG for Investigation Department of Education P.O. Box 1598 Atlanta, GA 30301 (404) 221-5862	Alabama, Florida, Georgia, Kentucky, Mississippi, Tennessee, North Carolina, South Carolina,
V Regional IG for Investigation Department of Education 300 South Wacker Drive, RM 1302 Chicago, IL 60606 (312) 886-6503	Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin
VI Regional IG for Investigation Department of Education 1200 Main Tower Bldg., Rcom 2130 Dallas, TX 75202 (214) 767-3828	Arkansas, Louisiana, New Mexico, Oklahoma, Texas,
VII Regional IG for Investigation Department of Education 10220 N. Executive Hill, Kansas City, MO 64153 891 7981	Iowa, Kansas, Missouri, Nebraska, PLUS: OIG for Colorado, Montana, North Dakota, South (816) Dakota, Utah, Wyoming
IX Regional IG for Investigation Department of Education 50 United Nations Plaza, Room 105 Francisco, CA 94102 (415) 556-2711	Arizona, California, Hawaii, Nevada, PLUS: OIG for Alaska, Idaho, Oregon, Washington

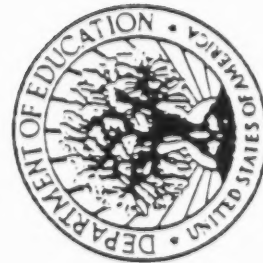
SPECIAL FRAUD ALERT

for Schools,
Lenders, and
Guarantee Agencies



How you can
help check
fraud & abuse
in the
government's
student aid
programs

Office of Inspector General
and
Office of Postsecondary
Education



APPENDIX D (1):

The vast majority of student aid applicants are responsible individuals who complete their application forms honestly and accurately to the best of their ability. Student aid fraud is nonetheless a very real problem, and one of increasing importance to the education community; for every dollar in student aid fraudulently obtained is a dollar denied to those for whom it is intended. It is thus in the interest of all of us—students, schools, lenders, guarantee agencies and the Department of Education—to prevent misuse of student aid, and to help ensure that U.S. taxpayer dollars—OGE dollars—go to assist those who are legally entitled to them, and who will use the money to further their education.

WHAT IS STUDENT AID FRAUD? Student aid fraud is the intentional wrongful obtaining of student financial assistance (SFA) benefits through deceptive means.

CAN YOU BE MORE SPECIFIC? Let's take eligibility. The Department of Education's SFA program limits are available only to eligible students as defined by law or regulation. In general, to qualify as eligible, a student must:

- be enrolled at least half time in an eligible program of study;
- carry a sufficient and appropriate academic workload and be making satisfactory progress as defined by the institution;
- be a U.S. citizen or a non citizen who has been lawfully admitted for permanent residence;
- demonstrate financial need (except for PLUS loans) as defined by applicable program regulations;
- sign a statement of educational purpose;
- have registered with the Selective Service if required to do so; and
- not be in default on a Federal student loan or owe a refund on a Federal grant at any institution of higher education.

Falsification of eligibility is the most common form of SFA fraud. The Department's Office of Inspector General (OIG) has investigated a number of cases involving individuals who falsified either eligibility or other items on student aid applications (and/or related documents) in order to obtain financial assistance to which they would otherwise not be entitled. Some of the methods used by these individuals include:

- false claims of independent student status;
- false claims of citizenship;

- use of false identities (i.e., false names and/or Social Security numbers); and
- forgery of official signatures or certifications.

CAN YOU GIVE ME AN EXAMPLE? Here's one case where a school official's alertness and quick action helped uncover an elaborate scheme to bilk the government out of more than \$40,000 in student aid funds:

- The suspicions of a college financial aid specialist who noted similar handwriting on five applications led to

the arrest and conviction of an ineligible alien who used forged identification cards to apply for over \$42,000 in student financial assistance. The alien, a cab driver who admitted using 15 different aliases to apply for and receive 30 Pell Grants and Guaranteed Student Loans, was apprehended while attempting to claim a check at the bursar's office. He pleaded guilty to charges of theft, was sentenced to four years in prison and was ordered to repay \$27,749 in fraudulently obtained funds—the total amount he actually received before his arrest—to the Department of Education.

WHAT CAN I DO? The following checklist has been developed to assist you in spotting potential fraud in the SFA application process. While in the vast majority of cases, the appearance of any one of these factors can be attributed to simple error or otherwise reasonably explained, anyone handling SFA applications should be aware of them, and should alert the proper authorities if patterns are discerned or serious questions arise.

INDICATORS	EXAMPLES	POTENTIAL SIGNIFICANCE
✓ Obvious or apparent forgery.	Inconsistency/irregularity of official signatures, certifications, or authorizations.	May signify attempt to avoid detection of ineligibility.
✓ Noticeable erasures or corrections on application or check, particularly in items that should be well known to applicant.	Name, Social Security number, address.	May denote falsification of entry.
✓ Identical entries of ostensibly unique items on several applications.	Addresses, references, telephone numbers, handwriting.	May signal attempt to obtain multiple grants or loans under different (false) identities.
✓ Obviously incorrect information.	Nonexistent street addresses.	May signify attempt to fraudulently obtain multiple grants or loans by concealing information that would betray common source of applications.
✓ Non-residential or temporary addresses.	Post office box addresses, "in care of" addresses.	May denote intentional falsification of information that would reveal applicant ineligibility.
✓ Discrepancies between application information and identification documents.	Driver's license, student ID card, birth certificate.	May denote intention to tamper with application form or other documents.
✓ Request by applicant to hand-carry application to financial institutions.	Convenience frequently cited.	May signify need for time to falsify information.
✓ Undue delay in applicant's submission of documentation.	Application forms, identification documents, financial information.	May signal intention to abscond quickly with funds and elude pursuit.
✓ Request by applicant to "rush" application process.	Financial hardship frequently cited.	

Here are some additional steps you can take to help minimize fraud and abuse of student aid funds.

- Examine all checks to verify proper endorsement.
- Record on back of checks the type and identification numbers of documents used for check cashing purposes.
- Photograph persons cashing loan checks.
- As now required by law, send loan fund checks to the school, not to the borrower, and, if for an amount of \$1,000 or more and for a period of enrollment exceeding one semester, in multiple disbursements.

And remember: Any instances of suspected fraud should be referred to the appropriate State or local agency with investigative jurisdiction or to the Department of Education, Office of Inspector General. The OIG's toll-free hotline number is 1-800-MIS-USED.

Help us to ensure the integrity of student aid.

HELP PREVENT STUDENT AID FRAUD!



APPENDIX D (2):

Lender Indicators of Fraud and Abuse

The following list contain indicators of potential fraud and abuse.

1. Complaints received from the guarantee agency regarding a lender indicating potential fraud.
2. Guarantee agency bills and receives payment for interest and special allowance and then the lender also directly bills and is paid for the same interest and special allowance.
3. Consistent tolerance errors in the lender billings for interest and special allowance.
4. Large fluctuations in the portfolio levels of the lender as reported in their interest and special allowance billings.
5. Billing under more than one lender I.D. (i.e., having more than one account and billing for the same portfolio under both I.D.'s).
6. Origination fees not being timely transmitted to ED/OPE; or the lender not reporting origination fees.
7. Large number of adjustments to interest and special allowance billings (e.g., overbill one quarterly period, and offset against the next quarterly period, while earning interest on the funds).
8. Lender computer system designed to update increases to portfolio balances as they occur, but does not update decreases to portfolio balances in a timely manner; thus the lender earns more interest and special allowance.

APPENDIX E

Part B Loan Programs Reference Citations: Laws and Regulations

- * The authorizing legislation governing the Part B Loan Programs has been amended numerous times since original enactment on October 22, 1965 and November 8, 1965. The current statutory citation is "Title IV, Part B of the Higher Education Act of 1965, as amended (20 U.S.C. 1071 et seq)."
- * The same is true of the regulations. When the program was administered by the Department of Health, Education and Welfare, the regulations were found in 45 CFR 177. Since the Department of Education was established in 1980, the regulations are found in 34 CFR 682 for the Part B Loan Programs and 34 CFR 668 for the General Provisions regulations.
- * Part B Program Bulletins covering current regulation changes and applicable interpretations -- published by the Office of Student Financial Assistance.
- * Federal Student Financial Aid Handbook -- Part B Loan Programs Section -- published by the Office of Student Financial Assistance.
- * Contact the Division of Training and Dissemination in Washington, D.C. for publications needed to update the Guarantee Agency Library or call their toll free information number, 800-333-INFO.

APPENDIX F

REVIEWER'S CHECKLIST

The following check list should be used as a quick reference guide during the review process to ensure that the review is thorough. It may also be used to help the reviewer prepare for the exit interview. Further details covering program requirements are included throughout the Site Guide.

- 1 Separation of duties (awarding and disbursing);
- 2 Responsiveness to student status confirmation reports;
- 3 Checks and balances on over-awards;
- 4 Bursar's office check loan processing activities;
- 5 Student status controls in registrar's office;
- 6 Special relationships with lender (prohibited transactions);
- 7 Student eligibility criteria;
- 8 Satisfactory academic progress determination;
- 9 Verification documentation;
- 10 Pell Grant eligibility before Stafford or SLS;
- 11 Stafford eligibility before SLS;
- 12 Refunds-timeliness and accuracy;
- 13 Responses to any previous reviews/audits, if applicable;
- 14 Default rates;
- 15 Borrower exit counseling;
- 16 Program/course eligibility; and,
- 17 Proper loan application certification.

APPENDIX G

A Simplified Approach to Assessing Interest and Special Allowance Liabilities

Guarantee agency and ED reviewers are identifying an increasing number of improper loan certification and late refund problems. When one or more of these problems occurs, the corrective action will involve the repayment of interest and special allowance to ED. The process of calculating interest and special allowance can be very time-consuming. For the convenience of estimating interest and special allowance, ED has developed a simplified approach to calculating interest and special allowance using a single average interest rate for all quarters.

Agencies are encouraged to use the simplified approach when assessing liabilities for interest and special allowance. The use of actual quarterly rates may also be used in the agency prefers. If institutional officials challenge the use of the simplified method, they may be given the option of performing the more lengthy actual computations themselves.

Improper Loan Certification

Improper loan certifications can result from either student error or institutional error. To determine the proper corrective action for an improper loan certification, the reviewer must first determine whether the problem is an institutional or student error.

Some of the most common types of institutional errors are:

- o Loans in excess of the amount allowed;
- o Loans to students not making satisfactory academic progress;
- o Loans to students enrolled in an ineligible program or attending an ineligible branch campus;
- o Loan to ineligible students, such as foreign students on student visas; and,
- o More than one application for the same student for the same loan period, in excess of need and in excess of loan limits.

Student-caused error can result from intentional or unintentional inaccuracies in student loan applications. Student errors can also cause some of the above institutional errors.

If the student's (and/or parent's) actions resulted in the receipt of a Part B Loan for which the borrower was not eligible, then 34

CFR 682.412 should be followed. The school must notify the lender of the ineligible loan. Also, this regulation requires that the lender send a final demand letter to the borrower. If the ineligible loan amount is not repaid, the lender must file a claim for the entire amount of the loan with the guarantor.

If the institution's action resulted in the borrower receiving Part B Loan funds for which (s)he was not eligible, the Secretary will waive 34 CFR 682.412 so that the borrower will not be harmed by the incorrect action of the school.

When a reviewer identifies a loan that was made as a result of the school's improper certification, the school should be directed to purchase the total loan. The loan will then become an institutional receivable. However, the terms contained in the promissory note continue to be in effect. The school should also be directed to reimburse ED for the interest and special allowance paid as a result of the improper certification.

LATE REFUNDS

Current regulation (34 CFR 682.607(c), published November 10, 1986) require a school to pay the lender each refund due within 30 days of the school's determination that the borrower failed to enroll, withdrew from school, or failed to return to school within 30 days of the expiration of an approved leave of absence.

When a school fails to make a timely refund to the lender, the school must reimburse ED for interest and special allowance paid to the lender as a result of the school's untimely actions.

SIMPLIFIED FORMULA

To simplify the calculation of interest and special allowance in the above cases, the following formula may be used;

$$\text{Loan(refund) Amount} \times \text{Number of Months Outstanding} \times .008 = \text{Interest} + \text{special allowance}$$

For example, if a \$2,625 loan was disbursed on January 17 and purchased on June 3, the calculation would be $\$2,625 \times 6 \times .008$ or \$126.00 of interest and special allowance. Therefore, the school will reimburse ED for \$126.00 in interest and special allowance.

The calculation of interest on a refund is similar. Assume for example that a student who had a \$2000 loan withdrew from school on August 31, and that the school determined that a refund of \$600 was due to be sent to the lender. However, the school did not send the refund to the lender until March 21, six months later than the regulations allow. In this instance, the calculation would be $\$600$ (late refund principal) $\times 6$ (months) $\times .008$ or \$28.80 of interest

and special allowance. Therefore, the school will reimburse ED for \$28.80 in interest and special allowance.

The rate used in this formula is 9.6 percent. This formula provides a yield slightly less than the average of interest and special allowance for the last eight quarters. However, counting any part of a month as a full month, the return to ED will be slightly more than if the more labor intensive and time consuming approach involving the actual number of days and quarterly rates was used.

The guarantee agency should advise the school that if the payment is not made, the agency will bring the matter to ED's attention and that ED may use its authority to fine, limit, suspend or terminate the institution.

